

**Statement of
Moises Loza, Executive Director,
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before the Subcommittee on Housing and Community Development,
U.S. House of Representatives
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Chairwoman Waters, Members of the Committee, thank you for the opportunity to submit testimony before you today about the housing conditions impacting millions of rural residents across the nation and the resources that are needed to effectively address these issues.

My name is Moises Loza and I am the Executive Director of the Housing Assistance Council, a national nonprofit organization dedicated to improving housing conditions for low-income rural Americans. HAC operates on the basic principle that effective community development – particularly in rural areas – requires collaborative solutions. Congress has been a strong partner in our efforts to address the persistent challenges affecting rural America. Thank you for your ongoing support and we look forward to working with you all in the future.

The Housing Assistance Council (HAC) was established more than 35 years ago to provide financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. HAC exists to meet the housing needs of the poorest of the poor in the most rural places and we fulfill our mission by working in close partnership with local organizations in rural communities throughout the nation. HAC has worked in rural communities in almost all 49 states, Puerto Rico, and the Virgin Islands. These relationships provide us with first-hand knowledge of the issues impacting rural areas and help us develop the strategies we believe have led to sustainable growth in many communities across the nation.

This afternoon, I would like to share HAC's perspectives on the FY proposed 2008 budget for Rural Housing Service, H.R. 1980 – authorizing legislation for the Housing Assistance Council, H.R. 1982 – authorizing legislation for the Rural Housing and Economic Development Program, and the preservation of the Section 515 portfolio. I would like to begin with a brief overview of rural housing needs and concerns.

RURAL HOUSING CONDITIONS AND TRENDS

In many respects, the quality and condition of rural housing has improved greatly over the last few decades. Homeownership remains high and more than 64 percent of all low-income rural families own their homes.¹ Substandard housing rates have declined by more than 90 percent² since the 1970s and mortgage credit is more readily available, resulting in increasing homeownership and more consistent loan terms between urban and rural borrowers. Policy and funding resources made available on the federal and state levels coupled with innovation by and the resiliency of local communities and leaders have contributed to these successes.

Despite these improvements, other housing problems persist. While housing costs are lower in rural America, so too are incomes and there is a growing affordability concern, particularly

¹ HAC Tabulations of 2005 American Housing Survey Data.

² HAC Tabulations of 2000 Census Data. More than 2 million substandard rural units in 1970 as compared to 200,000 in 2000.

among rural renters. Nearly 3.6 million rural households are cost burdened, paying more than 30 percent of their monthly income for housing costs

Rural areas are becoming increasingly diverse. Immigration and other population shifts have dramatically altered the face of rural America and consequently, community development needs are changing. Currently, less than 16 percent of the rural population are minorities; however, this population is disproportionately impacted by poor housing conditions as 37 percent are cost burdened and rural minorities are more than three times more likely than rural whites to live in substandard housing.³

HAC's analysis of 2005 Home Mortgage Disclosure Act Data shows us that over one-quarter of all reported rural mortgage loans were high cost loans.⁴ Among borrowers with incomes of less than \$25,000, the high cost mortgage lending rate increases to almost 40 percent. Given the higher interest rates and fees, higher cost mortgage loans can put borrowers in a precarious financial position and ultimately lead to foreclosure for those families that live on the margins.

Coupled with these challenges is the overall lack of attention to rural issues. While more than 20 percent of the nation lives in a rural area, these residents are spread out across 80 percent of the land mass. This presents many challenges related to collecting data and information, presenting a case in funding applications, and serving dispersed populations.

Rural community based organizations, which are often the catalysts of community change, are finding it increasingly difficult to operate. Program funding is declining in many areas and administrative funding is hard to find. Competition for scarce funds, including CDBG and HOME, is made more difficult given the smaller populations rural organizations must serve and the deep subsidies needed to make these projects affordable for low-income residents.

There are several rural housing programs that take these issues and conditions into consideration and allow local communities to develop innovative solutions. HAC has worked with rural communities across America and used these programs to help create housing solutions. The United States Department of Agriculture's Rural Housing Service single family direct loan program, Section 523 program, and Section 515 rental housing loan program are examples of resources that have been directed to provide much needed affordable housing for low-income rural residents.

HAC'S PERSPECTIVES ON THE PROPOSED FY 2008 BUDGET FOR RHS

I would like to speak specifically about the Administration's proposed FY 2008 budget would impact rural communities and families.

The proposed budget for fiscal year 2008 would dramatically change the federal funding landscape for rural housing. It would zero out direct loans for first-time homebuyers and for rental developers, reduce support for self-help housing organizations, and eliminate grants to increase local organizations' ability to help their communities.

Single-Family Housing

³ HAC Tabulations of 2005 American Housing Survey Data.

⁴ High cost loans are mortgage loans with interest rates at least three percentage points higher than that of U.S. Treasury securities of comparable maturity.

For the first time, this year's budget proposes no funding for USDA's popular and productive Section 502 single-family direct loan program. Defunding the direct loan program would eliminate the possibility of homeownership for thousands of rural families.

The subsidies provided through the Section 502 direct program has allowed USDA to extend homeownership to more than 2 million very low- and low-income families. In 2006 the average income of homebuyers receiving direct Section 502 loans was \$22,992.

Rural housing programs often work in concert and Section 523 is an important piece of rural self-help development. The Administration's budget would drastically slash the funding levels of the Section 523 self-help technical assistance program. Section 523 covers the administrative costs of nonprofit community organizations or local public agencies participating in self-help housing.

Self-help construction, coupled with Section 523 support for sponsoring organizations and direct Section 502 mortgages for participants, puts homeownership within the reach of low- and very low-income families who could not otherwise purchase homes. In addition, some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes than others receiving Section 502 loans, default and delinquency rates for self-help families are also lower.

Here are several examples of organizations that have used these Rural Housing Service programs effectively to build much needed affordable housing:

- △ Self Help Enterprises of California
- △ Proyecto Azteca working along the border in Texas
- △ Frontier Housing, Kentucky
- △ Tierra Del Sol in New Mexico
- △ Rural Development, Inc. of Massachusetts

HAC has been pleased to work with these, and many other, organizations for many years. We know from working with these groups that the Section 502 guaranteed loan program, which serves higher income groups, could not be used effectively to provide affordable homeownership opportunities for many if not most of the low-income families they have served. HAC is not opposed to the guaranteed program; however, we strongly believe that the direct program should not be substituted by the guaranteed program.

At a time when rising foreclosure rates show all too clearly the consequences of our nation's already existing shortage of affordable housing credit. Given the centrality of the Section 502 single-family direct program to improving the nation's rural housing, HAC urges Congress to save, if not increase funding, for these critical programs.

Rental Housing

The Administration proposes no funding for the Section 515 rural rental housing loan program, which produces rental units affordable for the lowest-income rural residents. The Section 515 program enables USDA Rural Development to make direct loans to rental housing developers, creating decent, affordable homes for the lowest-income rural residents. As of January 1, 2006, Rural Development data show that Section 515 tenant incomes averaged less than \$10,000.

Nearly 60 percent were elderly or disabled, and thus likely to be living on fixed incomes. In short, Section 515 renters have few, if any, other housing options.

In a final blow to rental housing, the budget proposes to shorten Section 521 Rental Assistance contracts to one year. The Rental Assistance (RA) program, used in developments funded under the Section 515 and 514 programs, ensures that extremely low-income residents pay no more than 30 percent of their income towards rent.

The guaranteed rental housing program, Section 538, cannot be used to affordably house the lowest income rural residents. While this program serves a specific need, the guaranteed program should not replace the direct program. Efforts should be made to protect the stock of affordable Section 515 units, and when possible, develop more of these projects.

PRESERVATION OF THE SECTION 515 RENTAL PORTFOLIO

Preservation has become a major issue for the over 464,000 units in USDA's Section 515 portfolio. A recent property assessment conducted for USDA concluded that 92 percent of those properties will need significant capital improvements in the next 20 years.⁵ At the same time, numerous owners have sought to prepay their Section 515 mortgages; some prepaid units remain affordable for low-income people, but it is not known how many. Thus preservation means not only physical maintenance and renovation of the units, but also keeping them in the stock of rentals affordable to low-income people. As I noted earlier, Section 515 tenants have few alternative housing options.

Rural preservation issues were addressed in H.R. 5039, introduced in the last Congress and passed by the Financial Services Committee, although tenant advocates and Section 515 owners did not agree on all the provisions of that bill.

The proposed FY 2008 budget does not appropriately address the need for preservation and revitalization of existing Section 515 properties. The FY 2008 budget would provide a total of only \$27.8 million to cover both rental property revitalization and also vouchers for tenants living in developments whose owners prepay their mortgages and, freed of Section 515's affordability requirements, raise rents. Based on prior years, this would fund less than 2 percent of the revitalization applications.

HAC is working with several nonprofits across the nation to address rental housing needs that are compounded by prepayment issues.

- △ Rural Housing and Development in Kansas
- △ Kitsap County Consolidated Housing Authority in Washington State
- △ South East Alabama Self Help Association, Alabama
- △ Hudson Valley Housing Development Fund, New York
- △ Northeast Community Action Corporation, Missouri
- △ Community Housing Partners Corporation, Virginia

⁵ ICF Consulting. 2004. *Rural Rental Housing – Comprehensive Property Assessment and Portfolio Analysis, Final Study Report and Appendix*. Fairfax, Virginia: ICF Consulting.

This year, the Housing Assistance Council is collaborating with the Council on Affordable and Rural Housing, the National Housing Law Project, the National Rural Housing Coalition, and others to devise ways to address rural preservation challenges.

H.R. 1982: THE RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Since 1999, the U.S. Department of Housing and Urban Development's Rural Housing and Economic Development (RHED) program has provided \$175.3 million to support innovative housing and economic development programs across the country. According to Office of Management and Budget numbers, RHED has helped to create more than 9,100 jobs and more than 12,000 housing units; more than 78 percent of the participants trained found jobs and families saved an average of more than \$1,200 annually because of the energy efficient improvements made using RHED funding.

RHED fills critical gaps left by other programs by providing resources to support comprehensive community development efforts that address the interconnected housing and economic development needs of rural communities. This targeted resource has enabled rural community organizations across the country to design and implement innovative programs and stabilize their communities.

The RHED program emphasizes specific high needs regions and populations and gives extra weight to applications that propose to serve areas with populations of 2,500 or less. Funding is allocated based on community need, measured by poverty and unemployment rates, as well as by other indicators such as substandard housing or housing affordability problems. Because of this targeting, the RHED program has reached isolated rural communities and populations in a very direct way. Almost one-third of these grants have been allocated to organizations serving the most remote rural counties.⁶

At least 60 percent of the organizations that have received RHED funds over the program's history serve high needs regions, which include Appalachia, the Mississippi Delta, the Border Colonias, Native American lands, and farmworkers. RHED's flexible design encourages community level approaches that combine both economic and housing development.

The Oglala Sioux Tribe Partnership for Housing used its RHED grants on the Pine Ridge Reservation in Shannon, South Dakota, one of the poorest counties in the nation. While it has been difficult to use other federal programs in Native communities, \$500,000 in RHED grants have been used to provide critically needed housing counseling and to capitalize a loan fund for mortgage financing and economic development.

Azteca Community Loan Fund, which operates in Hidalgo County, Texas, used RHED grants to develop and deliver financial literacy training specific to the needs of families living in the colonias, combining microenterprise loan assistance with housing assistance. Resources like RHED have enabled Azteca to serve families in the Border Colonias region, where annual incomes can be as low as \$6,000. Other federal assistance programs are difficult for many of these families to access because of program design or family income and credit issues.

⁶ This analysis is based on the Urban-Rural Continuum Codes, a classification scheme that distinguishes metropolitan (metro) counties by the population size of their metro area, and nonmetropolitan (nonmetro) counties by degree of urbanization and adjacency to a metro area or areas. RHED grants that were awarded to organizations in the most rural counties (Codes 7, 8, and 9) are considered remote.

With a 2001 RHED grant Kentucky Mountain Housing, serving rural Appalachia, was able to purchase a 50 acre tract of land, a dump truck for hauling materials, and update training materials. The flexibility of RHED enabled Kentucky Mountain Housing to increase its capacity and expand production of affordable housing units, resulting in the creation of 30 jobs and leveraging funds and garnering support from several key partners.

HAC has partnered with each of these organizations as they have pursued their community goals. Based on these partnerships and others across the country, we know that effective community development requires collaborative solutions. For HAC and the organizations we partner with, RHED has been a valuable community development tool and this program deserves your support.

H.R. 1980: THE HOUSING ASSISTANCE COUNCIL

In rural areas, where many local governments and community based organizations have limited capacity, simply having programs is not enough. There is a definite need for a mechanism to work between people, programs, and communities. For 35 years, the Housing Assistance Council has filled that role.

I would like to share with you some of the impacts that HAC has had in rural communities across the nation.

Using a comprehensive community development strategy, HAC has used its resources to provide lending dollars, technical information and assistance, training, and research resources all focused on meeting housing needs of rural communities.

HAC has committed loans totaling more than \$218 million to over 700 local housing developers in almost all 50 states, Puerto Rico and the Virgin Islands. These resources have resulted in more than 60,000 housing units and water/sewer connections. HAC has loaned more than \$50 million to support the development of nearly 17,000 units in high need areas. These lending resources help to bring additional dollars into underserved communities. On average, HAC has leveraged \$11 for every dollar invested in rural communities.

These loans help to create homeownership and decent rental housing for the nation's lowest income groups. The median income of households assisted with HAC funds is \$22,000, less than half the national median income. Despite the low income of the residents, housing costs for HAC-supported households are less than 26 percent of the monthly income. These resources have also helped to expand minority homeownership.

More recently, through the U.S. Department of Housing and Urban Development's Self Help Homeownership Opportunity Program, HAC and its partners have helped families gain nearly \$16,000 in equity assets at closing to families that build their own homes by contributing labor. This is three times the average total amount of assets held by low-income families nationally.

HAC has worked to develop local capacity, providing targeted capacity building grants to local rural organizations, training over a 1,000 local representatives each year, and providing countless hours of direct technical assistance.

A recent example of HAC's activity can be highlighted by the modest grants made to rural organizations struggling to meet the needs of families in their communities affected by

hurricanes Katrina and Rita. While the nation was focused on the disaster's impact in urban areas, HAC was able to support housing and financial counseling and rehabilitate housing units.

HAC serves local rural leaders by developing and sharing current research, information, and policy concerns on a range of topics. This information is shared through HAC's biweekly newsletter, *HAC News*, a quarterly magazine, *Rural Voices*, research reports, data analyses, and technical manuals, and the HAC web site, www.ruralhome.org. HAC currently serves 7,500 *HAC News* subscribers and is proud to report over 600,000 web site hits each month.

It is critical that HAC's funding be authorized in order to continue to meet the needs of rural communities that are not always able to advocate for themselves.

RURAL HOUSING RECOMMENDATIONS

Rural housing needs can improve with the appropriate level of policy and resource support. The following policy recommendations would help rural communities identify and implement sustainable programs.

- △ **Fund direct single family and rental housing programs to support homeownership for low-income and minority families.** HAC recommends:
 - Keeping the Section 502 direct loan program in place with full funding of at least \$1.14 billion (the FY 2007 level) or expanded funding of \$1.25 billion.
 - Ensuring funding for the Section 523 self-help technical assistance program at \$60 million.
 - Funding the Section 515 rental program at FY 2007 levels, at least \$100 million, and preferably at \$150 million.
 - Increasing funding for the Sections 514 and 516 farm labor housing programs to at least \$50 million for each program.
- △ **Preserve and revitalize affordable Section 515 rural rental housing, and protect the tenants of properties that cannot be preserved.** The following provisions of H.R. 5039, as passed by the Financial Services Committee in the 109th Congress, includes some key provisions that should be reflected in any rural revitalization and preservation legislation in the 110th Congress:
 - Enable owners to refinance their properties and obtain additional monies to revitalize aging properties, in exchange for keeping their properties affordable.
 - Enable USDA to provide vouchers to tenants in prepaying properties.
 - Ensure tenants receiving USDA vouchers have the right to remain in prepaid properties.
 - Require owners to notify tenants 120 days before prepayment.
 - Ensure USDA vouchers remain in the same communities after their original users are no longer using them.
- △ **Adopt H.R. 1982, authorizing HUD's Rural Housing and Economic Development program.** RHED has filled critical gaps for organizations operating in remote rural and underserved communities. RHED's flexible design encourages community level approaches that combine both economic and housing development.

With appropriate support, this program can provide resources to design innovative programs and leverage greater funds for these communities.

- △ **Adopt H.R. 1980, authorizing the Housing Assistance Council.** As the only national intermediary organization focused solely on improving housing conditions in rural communities, HAC has an important and valuable role to play and is deserving of your support. Since its inception, HAC has worked to build the capacity of rural organizations that strive to create or sustain affordable housing in their communities.

This effort has depended on hundreds of partnerships with local organizations that have received one-on-one technical assistance, attended regional and national training events, and accessed grants, loans, or information from HAC. By supporting HAC and the various federal rural housing programs, you are honoring the work of these many rural partners and supporting rural communities spread all across America.

CONCLUSION

In conclusion, I would like to thank you all for this opportunity to comment on the housing needs rural residents. I would be happy to respond to any questions.